

Message Text

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PAGE 01 HELSIN 00667 261444Z

51

ACTION EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 STR-04 AID-05 CEA-01

CIAE-00 COME-00 EA-06 FRB-03 INR-07 NEA-09 NSAE-00

OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01

PA-01 PRS-01 USIA-06 /085 W
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P R 261325Z MAR 75

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC PRIORITY 8460

INFO USMISSION GENEVA

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS PRIORITY

AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

LONDON 890

AMEMBASSY BONN

AMEMBASSY MOSCOW

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E.O. 11652: N/A

TAGS: ECON, ETRD, EEWT, GATT, COMECON, XH, FI

SUBJECT: FINLAND'S IMPORT DEPOSIT LAW: EMBASSY REPRESENTATIONS

REF: A) STATE 63716 (NOTAL); B) HELSINKI 550; C) HELSINKI 570;
D) HELSINKI 651; E) HELSINKI 639

1. SUMMARY. EMBOFF MADE REPRESENTATIONS AT FOREIGN MINISTRY
MARCH 25 EXPRESSING USG REGRET AND CONCERN OVER FINLAND'S
IMPORT DEPOSIT SHCEME. IN REPLY, FOREIGN MINISTRY OFFICIAL
CITED URGENT NEED FOR EFFECTIVE ACTIONS BECAUSE OF FINLAND'S
SERIOUS BALANCE OF PAYMENTS AND FOREIGN DEBT POSITIONS. HE
DENIED, BUT PERHAPS WITHOUT FULL INFORMATION, THAT THERE ARE
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PAGE 02 HELSIN 00667 261444Z

ANY DISCRIMINATORY ELEMENTS IN FAVOR OF CEMA COUNTRIES IN

THE PARLIAMENTARY RESOLUTION PASSED IN CONNECTION WITH THE
IMPORT DEPOSIT ACT. END SUMMARY.

2. REPRESENTATIONS REQUESTED REF. A MADE MARCH 25 BY
ECON/ COMMERCIAL COUNSELOR TO MR. JAN GROOP, ACTING CHIEF
(IN ABSENCE ABROAD OF AMB. ARVO RYTKONEN AND TWO NEXT RANKING
OFFICERS OF HIS BUREAU) OF ECONOMIC AND COMMERCIAL POLICY
BUREAU OF FOREIGN MISITRY.

3. IN REPLY GROOP SAID THAT FINLAND UNDERSTANDS THAT TRADE
ACTIONS SUCH AS FINNISH IMPORT SURCHARGE, REPLACED AS OF
MARCH 24 WITH IMPORT DEPOSIT SCHEME (DESCRIBED REFS. B
AND D) AROUSE FEARS THEY MAY STIMULATE SIMILAR ACTIONS BY
OTHERS. HOWEVER, FINNISH ACTIONS TO RESTRAIN IMPORTS SHOULD
HAVE BEEN NO SURPRISE TO THOSE WHO PARTICIPATED IN OECD
DISCUSSIONS OF RENEWAL OF TRADE PLEDGE SEVERAL WEEKS AGO,
FOR FINLAND'S STAND WAS VERY "RESERVED" TOWARD RENEWAL.

4. GROOP SAID HE WAS NOT IN POSITION TO COMMENT SPECIFICALLY
ON POINTS MADE BY ECON COUNSELOR, BUT COULD MAKE SOME GENERAL
OBSERVATIONS. HE THEN SAID THAT FINNISH PROGRAM CONSISTS OF MUCH
MORE THAN IMPORT DEPOSIT SCHEME, AND REFERRED TO CIRCULAR
NOTE DATED MARCH 12 FROM FOREIGN MINISTRY TO DIPLOMATIC MISSIONS
IN HELSINKI (TEXT WAS SENT IN REF. C), WHICH OUTLINES ENTIRE
GOVERNMENT NINE-POINT "GUIDELINES" FOR DEALING WITH
THE CURRENT ACCOUNT DEFICIT AND FOREIGN INDEBTEDNESS
PROBLEMS OF FINLAND. HE POINTED OUT THAT GUIDELINES CALL
FOR MEASURES TO REDUCE DEMAND, TO SOAK UP EXCESS MONEY
IN ECONOMY, TO RESTRICT CREDIT, TO RESTRAIN GOVERNMENT
SPENDING AT ALL LEVELS, ETC. ALTHOUGH IT IS NOT STATED
EXPLICITLY, POINT 5 OF THE GUIDELINES IS, GROOP SAID,
WARNING THAT GOVERNMENT INTENDS TO "TIGHTEN FURTHER
TAXATION SCREW". HE STATED THAT STRONG EFFORTS TO DIRECT
NEW INVESTMENT INTO PRODUCTION FOR EXPORT WOULD BE MADE,
PROBABLY USING NEWLY AUTHORIZED STATE INVESTMENT BANK
AS CHANNEL.

5. GROOP SAID FINANCING FINLAND'S EXTERNAL DEBT IS MAJOR
PROBLEM. HE QUESTIONED WHETHER FINLAND COULD HAVE GONE
ON FOR VERY MANY MORE MONTHS AS SITUATION WAS DEVELOPING
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PAGE 03 HELSIN 00667 261444Z

TOWARDS END OF LAST YEAR AND DURING FIRST MONTHS OF 1975.
AT END OF 1974 FOREIGN DEBT ALREADY AMOUNTED TO ABOUT
16 PERCENT OF GDP, WITH ESTIMATES THAT AS THINGS WERE GOING
IT WOULD REACH 20 PERCENT BY OCTOBER, 1975. BORROWING
ABROAD TO FINANCE THE 9174 CURRENT ACCOUNT DEFICIT (AN
ESTIMATED FMK. 4,500) WAS MOSTLY SHORT TERM, AS LONG TERM
LOANS WERE UNAVAILABLE EXCEPT AT PROHIBITIVE INTEREST
RATES. SOMETHING HAD TO BE DONE QUICKLY, AND IMPORT

DEPOSIT SCHEME SEEMED MOST LIKELY TO SUCCEED. DEVALUATION WAS CONSIDERED AND DISMISSED. TO BE EFFECTIVE IT WOULD HAVE HAD TO BE LARGE, 25 OR 30 PERCENT, AND EVEN THEN WOULD HAVE TAKEN TOO LONG TO TAKE HOLD. IN ADDITION, EXISTING FOREIGN DEBT IS VERY LARGE AND ADDITIONAL BURDEN OF SERVICING IT AFTER DEVALUATION WOULD BE GREAT.

6. GROOP SAID THAT FINNISH EXPORT VOLUME WAS DOWN IN THE LAST FEW MONTHS, ESPECIALLY IN FORST PRODUCTS SECTOR. FINLAND HAS BEEN PRICED OUT OF AMERICAN NEWSRING MARKET AND NOW U.S. AND CANADA ARE COMPETING WITH FINLAND IN THIRD COUNTRY MARKETS.

7. ECON COUNSELOR ASKED GROOP WHETHER THERE WAS ANY SUBSTANCE TO PRESS REPORT THAT PARLIAMENTARY RESOLUTION REGARDING TRADE WITH COUNTRIES WITH WHICH FINLAND HAS NO TRADE IMBALANCE (REF. E) MIGHT LEAD TO DISCRIMINATION IN FAVOR OF CEMA COUNTRIES, AMONG OTHERS. HE REPLIED THAT FOR ONE THING FINLAND HAD A TRADE DEFICIT WITH MOST CEMA COUNTRIES LAST YEAR, ESPECIALLY WITH USSR. HE SAID HE HAD CHECKED OUT PRESS REPORTS THAT SKDL HAD PRIVATE ASSURANCES FROM GOVERNMENT THAT FINNISH IMPORTERS FROM CEMA COUNTRIES WOULD GET BANK OF FINLAND-ORDERED BANK LOANS SUFFICIENT TO OFFSET IMPORT DEPOSITS THEY WOULD BE REQUIRED TO MAKE IN RESPECT TO SUCH IMPORTS. HE SAID THAT BANK OF FINLAND DENIED KNOWLEDGE OF ANY SUCH AGREEMENT. ECON COUNSELOR POINTED OUT THAT ANY DISCRIMINATORY ELEMENT IN PROGRAM WOULD BE MOST STRONGLY PROTESTED BY U.S. AND DOUBTLESS MANY OTHER NATIONS. GROOP CONCLUDED BY REFERRING TO STATEMENT OF FINANCE MINISTER VIROLAINEN TO PRESS ON MARCH 21 THAT RESOLUTION ADOPTED AT SKDL INSISTENCE MENTIONS NO SPECIAL COUNTRY GROUPINGS AND THAT "AIM IS NOT TO DISCRIMINATE AGAINST LIMITED OFFICIAL USE

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ANYONE".
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